February 28, 2002

Mr. David Johnston
Electricity Division
Indiana Utility Regulatory Commission

RE: Comments on Distributed Generation

Mr. Johnston,

Thanks to the IURC for soliciting comments on a topic that is very important to OmniSource Corp., Fort Wayne. As one of the nation's largest metal recycling companies, we are constantly striving to become more energy efficient while being ecologically sensitive. OmniSource is currently investigating the use of Distributed Generation (DG) as a way to reduce the amount of solid waste sent to area landfills. Technology is available to turn waste into energy but up to this point in time, the economics and the permitting processes have made it difficult or nearly impossible to implement this type of project. We feel that DG can be a win-win for all parties involved, the local Electric Distribution Company (EDC), the State of Indiana and OmniSource Corp. By streamlining the permitting process and establishing universal standards with the EDC's, DG will become more financially attractive. Now is the time to move Indiana ahead of the rest the Midwest by establishing standards that will be an incentive to all parties to vigorously embrace DG while maintaining safety and reliability for all consumers. DG, especially waste to energy DG, will keep Indiana the leading state in industrial growth. We recognize there are some hurdles to overcome. Interconnection standards, stand-by charges, stranded costs, siting & permitting and buy-back rates are just a few, all of which can be overcome.

Interconnection standards are necessary to maintain the reliability and safety of the electrical grid system. All DG facilities must be built to uniform industry standards. The key here "uniform standards." All new DG facilities should be built using the same standards with no differentiation by EDC.

Standby charges are a necessity only for DG sites that cannot operate as a stand-alone facility. If the site can operate without power from the grid or has redundant generation, then no standby charges would be applicable. If a DG site is not self sufficient, standby charges could be applied based on the maximum demand used but only during times of emergency, typically caused by DG failure. Normal tariff billing would be utilized for all other usage. Paying monthly standby charges is unnecessary because the typical small DG site and certainly not the stand-alone sites, will not cause the an EDC to invest in new generation. The more DG units built by private companies, the less investment will be needed by the EDC.

As for stranded costs, the EDC's have their investments covered by existing tariffs. If Indiana remains a "regulated" environment, this should not be an issue. With private industry making investments in DG, tariffs should remain flat because the EDC's would not be investing in more generation. Stranded costs would need to be addressed only if there were a massive move to DG or if Indiana decides to "deregulate," neither of which is likely to happen in the near term.

The siting and permitting issue is probably one of the more difficult items to contend with because no one wants a power plant in his backyard. However, most DG sites would be small and built on current industrial lands. Residential DG units are friendly to the environment and aesthetically pleasing. Large DG sites could be located on "brown field" sites where the environment and appearance are less of a concern. All DG facilities must meet or exceed EPA and state standards for their particular size and operating parameters.

Buy-back rates for excess energy produced should be negotiated with the host EDC based on the wholesale price of power not on "offset fuel costs." The market price is the true value of the power produced by DG. The IURC may want to consider approving contracts between DG sellers and EDC's to ensure equity for both parties. The EDC needs to have a reliable source of energy while the power producer needs a fair price for his energy.

Incentives for "green energy" should be considered as part of this discussion. Waste to energy may not be as "green" as some other types but the technology that OmniSource is investigating is far greener than burning coal even with high-tech scrubbers. As is always the case, investment in new technology doesn't come cheap. If DG is to become a viable option for Indiana, incentives for industry or individuals may be necessary to make it financially attractive. Once, the technology has proven itself the cost of equipment will come down and incentives can be phased out. In the near term, incentives may be required to start the movement to DG.

DG has the potential to become a reality in Indiana. It holds promise as a way to increase reliability and safety while helping the environment. Participation by all parties, the State of Indiana, the EDC's and private industry working in partnership will be required to make it a reality.

Sincerely,

Jim Ehlinger
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